



Q2 2025 Newsletter

As we experience the first weeks of Summer, we hope that you are doing well and that warm sunny weather is soon to follow. We are writing this Newsletter somewhat earlier than usual due to earlier vacation schedules for most of our team. Sara just returned from London and Paris. (Loved London but wasn't so sure about Paris, to which I concur!). Wendy and Ricky will leave for France this weekend (June 28th) for a few weeks. Coincidentally, my family and I will be leaving for France as soon as Ricky and Wendy return. My wife Gail, our two daughters Alana and Laura and I will be hiking what is known as the Haute Route – a route that goes from Chamonix France, to Zermatt, through the Swiss Alps for 12 days and 11 nights. I lived in Chamonix in my early twenties so I will be interested to see it 50 years later. Hopefully our family will still be on speaking terms after the ordeal!

As investors, we got a bit more than we bargained for during the first half of the year. An optimistic tone prevailed in January in the U.S. as markets there had continued to move higher, unemployment was low, inflation was tapering, and investors were primed for a pro-business new administration in Washington. In Canada, consumer spending had improved, housing activity was firming, and the Bank of Canada was leading the world in interest rate reductions. Then came a series of punches that shifted the story line of just about everything. News headlines hit with such a volume and intensity that it was difficult to keep up.

The top stories ran the gamut from politics to technology to economics. We witnessed scores of U.S. executive orders: mass deportations; lawsuits against colleges, law firms and the media; hints of U.S. invasions of allies (manifest destiny intentions); and notices to a variety of international bodies (such as the World Bank, NATO and the International Monetary Fund) that U.S. policies were changing on the world stage. Next came unilateral tariff announcements that launched trade wars against allies and competitors alike. More recently we have experienced a stressful few weeks of tension between Israel and Iran, not to mention participation by the U.S.

All of the above-mentioned issues have an array of potential outcomes as none of them have black and white answers or solutions. Companies have suspended or reduced or modified their guidance and are afraid to hire or make investment decisions. Economists have shifted their opinions from “no recession” to “high likelihood” to “less likelihood” in a matter of days.

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Despite all of the handwringing over the “extreme lack of certainty” and “need for clarity”, consumers both in Canada and the U.S. continue to spend even if their spirits were less than cheerful. And markets have proved resilient despite the volatility. U.S. stocks, for example, hit all-time highs on February 19 but were down close to 20% by early April. Many individual names, particularly in the Tech and Communications industries, were down 30%, 40% and some by 50%. However, as we write this in the last weekend of June, the markets that we follow are at all time highs or very close to them.

The moral of this first-half story may be to not panic at market lows, and not to make rush judgements based on headlines and social media accounts. Having said that, although things are looking up, we believe that we are not out of the woods yet, at least in the short term. Prime Minister Carney and President Trump had announced a fast-track set of negotiations with an intended deadline of July 21st. But just today Trump ceased negotiations with Canada due to our impending tax on foreign media corporations doing business in this country. Who knows what whim he will wake up with tomorrow. By the time you read this you will know the answer but who knows where that leads? After all, it was Fentanyl, it was defense spending, it was supply management before the foreign media tax became the issue. (Tax has since been cancelled).

We predict short term pain for the Canadian Economy that is not reflected in the Canadian Markets today as we hurtle towards the renegotiations of which we still refer to as NAFTA.

In this Newsletter, we will as usual outline the trades that were made in the Second Quarter and relay the average returns in Managed Portfolio Accounts. Your Portfolio Report and Performance Report(s) will be mailed separately later in July. We wanted to send you the Newsletter earlier, and before all the Reports for the Second Quarter are ready.

[2nd Quarter Trades in MPA Accounts](#)

In the First Half of 2025 we have been gradually raising cash. In early January we reduced the holdings of Microsoft, Apple, Broadcom, Google, CNQ and AltaGas. We sold Pepsi and Northland Power outright. In the first week of April, after Trump introduced “Liberation Day” and announced tariffs for all nations, the S&P 500 fell by almost 20%. At that point we wished that we had sold more equities and urged clients to be patient. Within a month, the S&P 500 had gained almost 20% again.

On May 2nd, we trimmed several U.S. stocks, including Vertiv, Union Pacific, Microsoft, Morgan Stanley, Lilly, Walmart, Equinix, and Corteva. We sold in total the positions in Freeport and Avery Dennison. The only positions that we bought in the First Half of the year were two Canadian Bond Funds. The result of all of the U.S. asset sales is that portfolios are sitting on approximately 15% of assets in Money Market Funds or Cash. As we outlined in the First Quarter Newsletter, it is our intention to deploy this cash at the appropriate time into assets other than U.S. equities – primarily in Canada and some in Europe. We intend to reduce the portion of U.S. assets in accounts from 66% (where it used to be), to approximately 50%.

Average MPA Portfolio Returns¹

For the Second Quarter of 2025, non-Registered Growth Mandated Accounts returned between +4.98% and +5.44% (all returns are reported after-fees). Year-to-date, these accounts are up between +2.44% and +3.23%. Registered Growth Mandated Accounts were up almost exactly the same as non-Registered Accounts: up between +5.02% and +5.69% for the Second Quarter and between +2.56% and +2.96% for the first 6 months of the year.

Balanced Mandated non-Registered Accounts returned from +3.47% to +3.83% for the Second Quarter and from +1.95% to +2.67% for the First Half of the year. Balanced Registered Accounts returned between +3.01% and +3.74% for the Second Quarter and between +2.75% and 3.26% year-to-date.²

These results are summarized as follows:

Accounts over \$250K:

	<u>Q2 2025</u>	<u>Year-to-Date 2025</u>
MPA Growth (non-Registered)	+4.98% to +5.44%	+2.44% to +3.23%
MPA Growth (Registered)	+5.02% to +5.69%	+2.56% to +2.96%
MPA Balanced (non-Registered)	+3.47% to +3.83%	+1.95% to +2.67%
MPA Balanced (Registered)	+3.01% to +3.74%	+2.75% to +3.26%

In comparison, the Canadian S&P/TSX returned +7.92% in the First Half of 2025 while the S&P 500 in U.S. dollar returned +5.47%, the Dow Jones returned +4.55% (in U.S. dollar) while the Nasdaq returned +5.48% in U.S. dollar.

As Canadians, our returns are all reported in Canadian dollar. Year-to-date, the U.S. dollar was down against the Canadian dollar by -5.18%. This explains the major reason why our portfolios look underwhelming compared to the Indices. When converted to the Canadian dollar the S&P/500 returned +0.7%, the Dow Jones returned -0.87% and the Nasdaq returned +0.01%.

As we discussed, we have been raising cash so far in 2025 due to the fast-moving risks that we foresaw. Of course, the various indices are always invested at 100% equities something that we see as far too risky particularly now.

The Elephant in the Room

Policy risk in our neighbour to the south is at the highest level in our lifetimes and unfortunately many of the problems run deep. Some of these risks have been growing over a long period of time: fiscal budget unsustainability, the growing impotence of the U.S. Congress and the collapse in the credibility of both government and non-government institutions. Other risks have become worse over the past few presidencies: the U.S. as a less reliable ally, attacks on the rule of law, and corruption. Some issues are

¹ The performance figures exclude TFSA and smaller accounts. Please refer to your performance reports for the return figures of your accounts.

² Differing results are affected by amounts of cash deposited or withdrawn from an account during the quarter.

largely unique to Trump: tariffs and capricious policy making. These risks are causing investors to reexamine “American Exceptionalism” in markets at a time when asset prices are historically high and especially vulnerable to negative events.

In one important sense, the U.S. remains exceptional. Somewhere in a garage in America right now someone is inventing the next amazing thing. America’s entrepreneurial culture and economic dynamism are unrivaled and there is no replacement in our lifetime for the U.S. dollar as the major trading currency. In a sense, the U.S. is still the cleanest of the dirty shirts.

Unfortunately we are currently witnessing some things go sideways. It is prompting investors, including us, to reexamine long-held assumptions about the risk associated with investing in the U.S. It’s reflected in the recent decline in the U.S. dollar, although not yet in the U.S. stock markets. We see heightened policy risk for the reasons catalogued below:

Record Tariffs.

Trump’s goal is high tariffs and despite that he is likely to lose at the Supreme Court, we believe that he has the will to see his tariffs agenda through by any means possible. Tariffs are probably going to stay roughly where they are today, and deals are unlikely to reduce them materially.

Capricious policy making.

It is an understatement to say there is not a robust-policy making process at the White House. Trump shoots from the hip and has supreme confidence in his instincts. He never makes a mistake! And he never apologizes for his mistakes. The diminished quality and integrity of many of the people in senior positions in government is notable. The risk of mistakes and instability will remain elevated.

Record deficits and debit.

The federal deficit is at an all-time high for a peacetime economy that is not in recession and the U.S. is closing in on its all-time record for total debt as a share of GDP that was reached during the Second World War. Trump is pushing a new tax cut that will benefit the rich and increase the divide between the rich and the poor. DOGE in the U.S. is a bust and will not save real money. There is no serious effect to address fiscal unsustainability.

Congress is impotent.

Republicans are terrified of Trump and Democrats are in disarray for so many reasons including the party being too far Left for U.S. voters and for having fielded an ageing incompetent candidate in the last election. Heightened polarization has driven out statesmen from Congress in both parties and they have been replaced by lightweights looking for “clicks” and TV contracts. It has become a feeble check on executive branch excesses, the very reason for its existence.

Non-government institutions are critically weakened.

Social media has peddled so many false narratives that it is no longer trusted as an arbiter of basic facts. Many elite universities are facing a political reckoning. Many of these institutions, including professional trade associations, have sacrificed their credibility and lost sight of their civic responsibility such that they have forfeited their ability to be a moderating influence.

The rule of law is under sustained attack.

Rules and norms are falling like dominoes with the threat to independence of the Federal Reserve only the latest example. The weaponization of government has take an ominous turn such that it is being used

to crush law firms, target universities and harass people that the President doesn't like. Who, with an ounce of credibility, is left to complain?

Hostility to U.S. commitments.

Obama, Biden and Trump (in his first term), all retreated from the world and the U.S. became a less reliable ally. Now in Trump's second term there is open hostility to U.S. allies. The U.S. has violated Trade agreements it had signed and is questioning its commitment to NATO, while giving Putin a free pass. The Zelensky meeting at the White House crystalized the new reality.

Open and brazen corruption.

It is said that the Biden family (although not Joe directly) took tens of millions of dollars from shady foreign interests. Joe then pardoned his son. Trump's family is now taking hundreds of millions from unknown domestic and foreign interests mainly from various crypto ventures. Trump will take a \$400 million plane from Qatar. No modern American president had behaved this way until Biden and Trump (in his second term), and this raises questions about whether personal financial interests will heavily influence policy outcomes.

After reading these seven negatives it would be understandable if clients questioned owning U.S. assets at all. However, it is worth rereading the second paragraph of this section. The U.S. simply has most of the world's great companies and they are listed in the S&P 500 and Nasdaq. In Europe, as in Canada, we simply don't have the Microsofts, or Googles, Amazons or Costcos for example. We can reduce our holdings in the U.S. stocks, but we cannot abandon them.

Ricky's Insights

[Stock Feature - Take-Two Interactive](#)

Take-two interactive was one of the standout ideas from the New York analyst conference last November. There are only a limited number of major video game publishers in the industry – namely Take-Two Interactive, Electronic Arts, Nintendo, Sony Interactive Entertainment, and Tencent Games. Of these, only the first three are publicly traded, while the latter two operate under larger parent companies.

The video game publishing industry is both capital- and labor-intensive, with high barriers to entry. We chose to focus on Take-Two Interactive due to its portfolio of iconic titles—particularly Grand Theft Auto (GTA), which has sold over 440 million units since was first released in 1997. The upcoming release of GTA 6, slated for Fall 2025, is expected to surpass 100 million units in sales, following the enormous success of GTA 5, which launched back in September 2013 and remains a fan favorite. Our analysts' latest channel check showed that Take-Two continues to benefit from the best video games pipeline.

In addition to games played on consoles such as Xbox and PlayStation, Take-Two also offers a portfolio of games that are played on cellphone or tablets. Its games also feature cross-platform capabilities, allowing players on different devices to interact. It is an important feature that could drive user engagement and potentially shift the sales model toward recurring revenue.

While we are not anticipating a recession, it is worth noting that interactive entertainment tends to be more resilient than other consumer sectors during economic downturns, largely due to its relatively low cost.

[Why Starting Young Makes a Big Difference in Investing](#)

We often emphasize that “time in the market matters far more than timing the market.” We believe parents can play an important role in encouraging their children to start saving or investing early.

Here is an example to show why starting early pays off:

John, age 25, lives at home and is able to save \$3,000 a year. He invests that amount annually for 15 years, earning a 6% return. By the time he’s 65, his total \$45,000 investment has grown to approximately \$317,000.

In comparison, Steve starts investing at age 35. Realizing he’s getting a late start, he invests \$3,000 a year for 30 years—twice as long as John—for a total of \$90,000. Even so, by age 65, Steve ends up with only around \$251,000.

Despite investing half as much money, John ends up with more because he started earlier. This illustrates the value of investing early and the power of compound growth.

If your children or even grandchildren are ready to begin their investment journey, we’d be happy to help them get started.

[Our Strategy and Summary](#)

We are continuing with the strategy that we started in January and outlined in the last Newsletter in early April. In summary, that strategy was to raise some cash during market highs, like in January and later in May, with the intention of reducing U.S. assets which stood at approximately 66% of portfolios. The selling part has been accomplished in the first Two Quarters of the year. The Third and Forth Quarter will see us re-deploy the (U.S. dollar) cash into the Canadian and European market at the appropriate time. We believe that all markets will end the year higher than they are today, but we believe they have run too far and too fast, such that they could be easily disrupted by any negative news of which there are any number of possible sources, as we outlined earlier. We think that there could easily be a “pullback” this Summer and we will use that opportunity to realign portfolios with less U.S. equity.

As we mentioned earlier, we are attempting to send out Newsletter early so it is not irrelevant with so many things happening in the world so quickly. Consequently even the returns of portfolios are not yet officially calculated let alone printed. We will send that information separately as soon as we receive it.

Meanwhile we wish everyone a wonderful and safe summer and look forward to speaking with you soon.



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